

PHILADELPHIA OFFICE MARKET

SECOND COMCAST TOWER DELIVERS

PHILADELPHIA CENTRAL BUSINESS DISTRICT (CBD)

Comcast Corporation expanded its presence in the Philadelphia Central Business District (CBD) with the delivery of the 1.3 million-square-foot Comcast Technology Center, located at 1800 Arch Street. The firm has occupied a majority of the 1.2 million-square-foot Comcast Center, located at 1701 John F. Kennedy Boulevard, since 2007. In addition, Comcast recently announced it was vacating 200,000 square feet at Two Logan Square and expanding to 300,000 square feet at Three Logan Square. Comcast's business growth could result in additional leasing activity with vendors that do business with Comcast.

While the delivery of the Comcast Technology Center resulted in over 1.0 million square feet of positive absorption for the quarter, some tenants continued to shed excess space. Year over year, sublease availability increased 20 basis points to 1.2%. During the quarter, CDI Corporation put 35,000 square feet on the market for sublease at 1735 Market Street, while McCormick Taylor began to market 59,000 square feet at Two Commerce Square. Hill International has had 60,000 square feet on the market for sublease at One Commerce Square since mid-year 2017.

SOUTHEASTERN PENNSYLVANIA

Overall vacancy decreased 60 basis points quarter-over-quarter to 14.0%. Southeastern Pennsylvania recorded 709,719 square feet in year-to-date occupancy gains, surpassing 2017's total absorption by 148,000 square feet. The largest occupancy of the quarter was USSC Group's expansion into the 300,000-square-foot 101 Gordon Drive, located in the Exton/Malvern submarket.

Some suburban tenants, like their CBD counterparts, have downsized their workspaces. In the Fort Washington submarket, T-Mobile moved out of 45,000 square feet at 500 Virginia Drive to 24,112 square feet at 475 Virginia Drive. After transferring certain business line jobs to a third-party provider, Transamerica vacated 90,300 square feet at 300 Eagleview Boulevard for 9,500 square feet at 350 Eagleview Boulevard. Both properties are located in the Exton/Malvern submarket.

Along with the Philadelphia CBD, the Southeastern Pennsylvania market posted an uptick in sublease availability. Year-over-year, the sublease availability rate increased 10 basis points to 2.0%. During the quarter, Viewpoint vacated and put 22,932 square feet on the market at 600 West Germantown Pike in the Blue Bell/Plymouth Meeting submarket.

CURRENT CONDITIONS

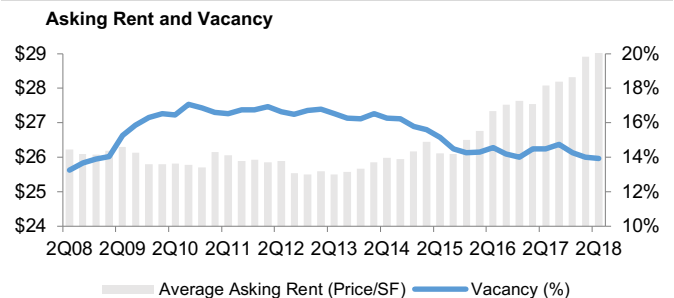
The 1.3-million square-foot Comcast Technology Center delivered in second-quarter 2018.

5 Crescent Boulevard sold to Korea Investment Management for \$130.5 million.

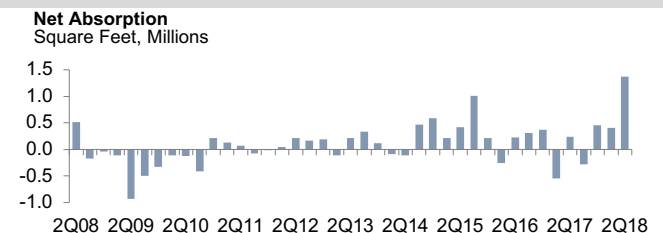
Year-to-date absorption for Southeastern Pennsylvania was positive 789,487 square feet, surpassing 2017's total.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	111 MSF	109 MSF	109 MSF	↑
Vacancy Rate	13.9%	14.0%	14.5%	↑
Quarterly Net Absorption	1.4 MSF	0.4 MSF	0.2 MSF	↓
Average Asking Rent	\$28.73	\$28.42	\$27.58	↑
Under Construction	1.0 MSF	2.5 MSF	2.7 MSF	↑
Deliveries	1.5 MSF	0.0 MSF	0.2 MSF	↑

RENTS

The average direct asking rental rates for Class A and Class B properties in the Philadelphia CBD increased \$0.52/SF and \$0.57/SF, respectively, from the first quarter of 2018. Recent lease transactions show annual rent escalations between 2.25% and 2.50% for trophy and non-trophy Class A deals. In addition, recent transactions closed at Class B properties reported annual rent escalations of \$0.50/SF.

Overall, work allowances are rising due to the increased cost of building out space.

Quarter over quarter, Southeastern Pennsylvania's average direct asking rental rate rose by \$0.28/SF to \$26.75/SF. Buildings offering quality amenities have achieved higher rents than those with poor amenities. While the Class A average direct asking rental rate increased \$0.13/SF from one year ago, a closer look at trophy assets showed a rent bump of \$1.81/SF.

CONSTRUCTION

In June, pharmaceutical distributor AmerisourceBergen announced it would keep its headquarters in Conshohocken. The company received board approval to consolidate its headquarters to a proposed 400,000-square-foot facility located at Keystone Property Group's SORA West development site.

Over in downtown Philadelphia, 3675 Market Street is under construction and scheduled to deliver in the third quarter of 2018. The property, located in the University City submarket, is over 60.0% pre-leased to the University City Science Center and the Cambridge Innovation Center. 2400 Market Street, located in the West Market, is also on track to finish in the third quarter. As of this report, the building has 191,000 square feet of available office space.

Public Ledger is considering whether to convert an undetermined amount of office space into apartments. This is an ongoing trend—Keystone Property Group turned 90,000 square feet of office space at The Curtis into 63 residential units. As of this May, 49 units were leased. Both properties are located in the Independence Square submarket.

SALES ACTIVITY

The big news this quarter was Liberty Property Trust's sale of 5 Crescent Drive, located in the Navy Yard, to Korea Investment Management Co., Ltd. (GSK is the sole tenant). The 207,779-square-foot property traded for \$130.5 million, or \$628/SF, a record per-square-foot high for the region. This is Korea Investment Management's second purchase in Philadelphia: In 2016, the firm acquired Cira Square, located near the 30th Street train station, for \$354.0 million, or \$407/SF.

While foreign investors are increasingly interested in the greater Philadelphia office market, most transactions have been conducted by private buyers. There is little institutional money being invested in the office market, as REITs are more focused on multi-family and industrial properties.

OUTLOOK

There are 19 companies looking to fulfill new office space requirements of 430,000 to 538,000 square feet in the downtown Philadelphia market. In addition, suburban tenants are seeking satellite offices in the CBD, and more co-working tenants are now searching for permanent space. These trends, along with the possible conversion of additional office space to multi-family, could erode vacancy caused by densification.

The Philadelphia suburbs have seen little new speculative construction in recent years, as developers are unwilling to break ground without a committed anchor tenant. However, suburban owners have turned to renovation as a means of capturing tenants willing to pay top dollar for good amenities. This trend shows no signs of slowing down: In the second quarter, 9 Great Valley Parkway (55,400 square feet), located in the Exton/Malvern submarket, started renovations, while 500 North Gulph Road, located in King of Prussia, should finish its upgrades (including a revitalized façade, modernized offices and a new garage) by the end of the year. The latter property is entirely pre-leased by CSL Behring.

Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
United States Department of Labor	1835 Market Street	West Market	New	104,265
PMHCC	1601 Market Street	West Market	New	64,500
McCormick Taylor	1818 Market Street	West Market	New	60,000
Crown Cork & Seal	770 Township Line Road	Bucks County	New	50,140
Acclara Solutions	475 Virginia Drive	Fort Washington	New	38,717

Sales Transactions

Building	Submarket	Sales Price	Price/SF	Square Feet
5 Crescent Drive*	Navy Yard	\$130,500,000	\$629	207,779
1709 Benjamin Franklin Parkway*	West Market	\$10,900,000	\$160	68,000
551 West Lancaster Avenue	Bala Cynwyd	\$8,250,000	\$286	28,000
33 Rock Hill Road	Bala Cynwyd	\$5,400,000	\$180	30,000
132 Welsh Road	Horsham/Willow Grove	\$5,000,000	\$111	45,205
4 Campus Boulevard	Central/South Delaware County	\$3,680,000	\$115	32,000

*Not part of statistical inventory

SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
East Market	6,531,084	-	12.5%	(182,262)	(197,774)	\$33.65	\$27.83	\$28.68
Independence Square	5,552,963	-	17.9%	5,573	68,460	\$29.77	\$31.00	\$30.86
University City	2,868,880	350,000	12.2%	(94,441)	(94,441)	\$35.33	\$47.58	\$38.22
Walnut/South Broad	4,031,024	-	15.8%	28,964	32,537	\$29.39	\$28.57	\$27.79
West Market	27,325,844	618,481	13.2%	1,254,174	1,238,187	\$34.96	\$27.64	\$33.40
CBD Total	46,309,795	968,481	13.8%	1,012,008	1,046,969	\$34.71	\$29.36	\$32.07
Bala Cynwyd	2,971,802	-	9.2%	(15,773)	12,679	\$35.41	\$33.34	\$33.04
Blue Bell/Plymouth Meeting	8,298,682	19,585	20.5%	29,356	162,724	\$28.17	\$24.46	\$26.80
Bucks County	8,295,879	-	18.5%	80,444	28,123	\$28.17	\$22.66	\$23.87
Central/S Delaware County	5,358,937	-	11.7%	(31,588)	(16,427)	\$28.12	\$24.52	\$26.18
Conshohocken	3,305,942	-	8.2%	65,822	43,424	\$38.57	\$30.93	\$36.06
Exton/Malvern	8,292,524	-	9.7%	177,297	148,687	\$26.93	\$26.20	\$26.40
Fort Washington	3,605,418	-	13.5%	36,439	145,446	\$27.81	\$24.23	\$25.85
Horsham/Willow Grove	4,657,314	-	19.3%	(6,715)	(17,819)	\$27.99	\$24.08	\$24.65
Jenkintown	1,081,401	-	16.0%	26,623	(19,724)	\$24.05	\$22.63	\$23.37
King of Prussia	13,333,665	-	14.2%	55,630	142,937	\$31.24	\$26.07	\$27.31
Radnor/Main Line	2,823,417	-	6.6%	5,016	106,478	\$39.10	\$27.25	\$38.85
Southern 202 Corridor	2,506,915	-	8.3%	(14,343)	(26,809)	\$27.42	\$24.82	\$25.92
Suburban Total	64,531,896	19,585	14.0%	354,962	709,719	\$29.93	\$25.02	\$26.75
Market Totals	110,841,691	988,066	13.9%	1,366,970	1,756,688	\$32.18	\$26.14	\$28.73

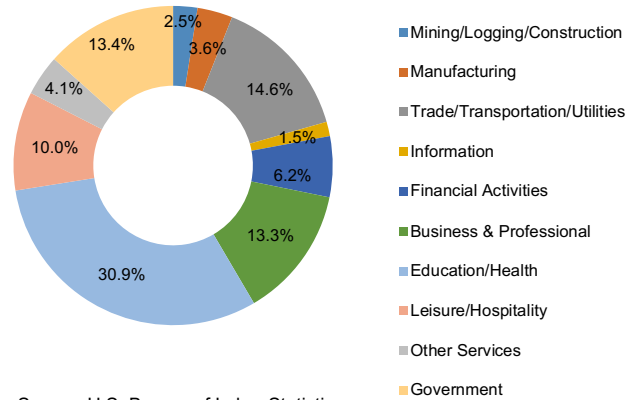
ECONOMIC OVERVIEW

The United States Bureau of Labor Statistics (BLS) reported a national unemployment rate of 3.9% for the month of April, a low not recorded since December of 2000. In May and June, the United States government announced tariffs against Canada, China and a number of European countries, to spur the renegotiation of trade terms. Those countries have responded by instituting their own tariffs on certain United States imports. There have been no immediate ill effects to employment levels, but that could change over the next few months if the trade war continues.

While the Philadelphia metropolitan region's unemployment rate fell, to 4.4%, it lags behind the rest of the nation. The BLS reported year-over-year job growth in mining, logging and construction, education and health, and leisure and hospitality services. Job losses were mostly centered on the manufacturing and information sectors.

EMPLOYMENT BY INDUSTRY

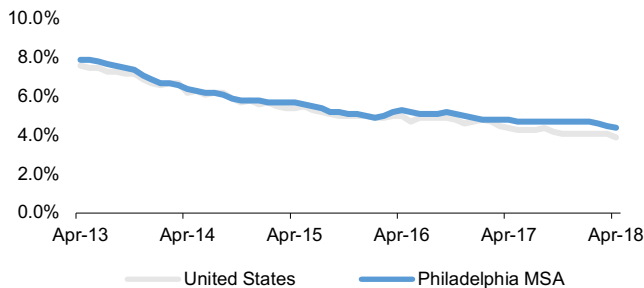
Philadelphia Metropolitan Division, 2017 Annual Average



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

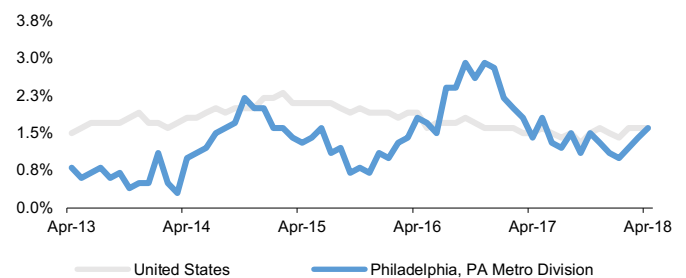
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, Philadelphia Federal Reserve Bank

PAYROLL EMPLOYMENT

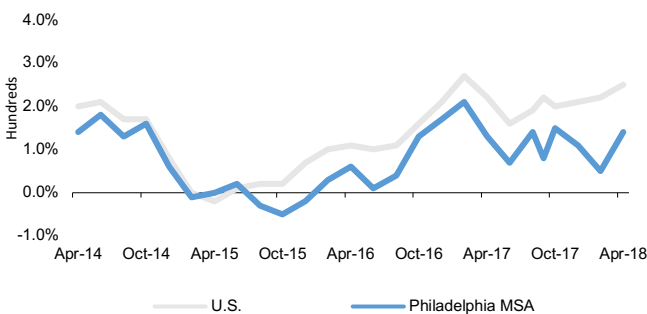
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

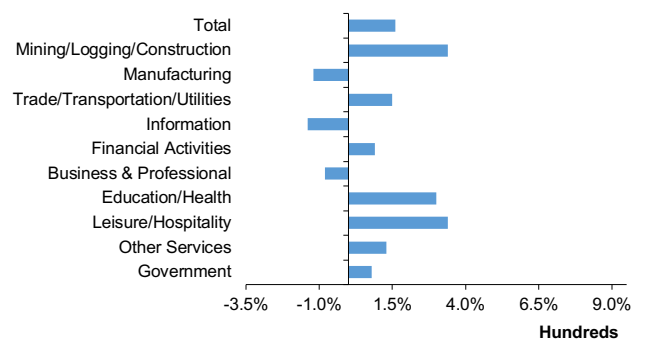
All Items, 12-Month % Change, Not Seasonally Adjusted,



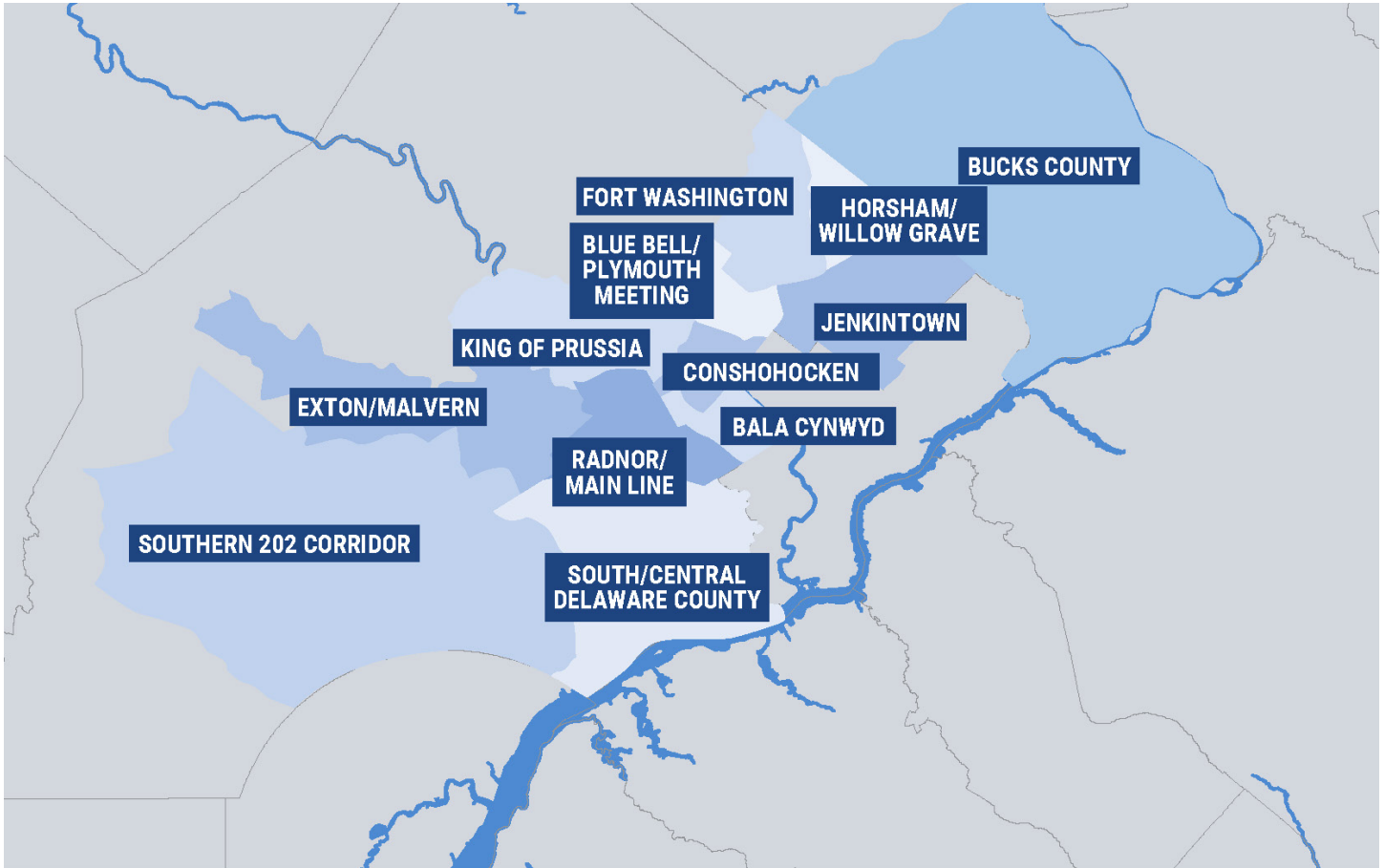
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Philadelphia Metropolitan Division, Apr. 2018, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics



DANIELA STUNDEL
Research Manager
215.246.2725
dstundel@ngkf.com

SILAS LEAVITT
Research Analyst
610.755.6969
Silas.Leavitt@ngkf.com

Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Knight Frank Research Reports are available at www.ngkf.com/research

All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark Knight Frank (NKF) has not verified any such information, and the same constitutes the statements and representations only of the source thereof, and not of NKF. Any recipient of this publication should independently verify such information and all other information that may be material to any decision that recipient may make in response to this publication, and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial, and tax aspects and implications. Any recipient of this publication may not, without the prior written approval of NGKF, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains.